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AUTHOR Pisciotta, John
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ABSTRACT

The purpose of this essay is to show that education is not a public good, and that in contrast to a public good such as national defense, education can be provided through competitive suppliers in the private sector as well as through government enterprise. A public good differs from a private good in the nature of consumption. A public good possesses the characteristics of (1) simultaneous consumption, i.e., the benefits of the good flow simultaneously to many but not necessarily to all, and (2) nonexclusion, i.e., a supplier cannot exclude consumers from benefits once the good is provided. The public good situation requires governmental involvement. Examples of a public good include flood control and national defense. Education is not a public good because it does not necessarily involve government, and while education has an element of simultaneous consumption, it does not contain the characteristic of nonexclusion. Thus, education is a private good. Families can make different educational choices in the marketplace, and the United States has an educational system that offers households many alternative suppliers in a competitive market. Expanded private sector education is one way to solve many of the current educational problems in the United States. (RM)

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EDUCATION IS NOT A PUBLIC GOOD

John Pisciotta
Center for Private Enterprise
Baylor University
Waco, Texas

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Concern about public education has mounted steadily throughout the 1970s and 80s. This attention culminated with the April 1983 report of the National Commission on Excellence in Education. A Nation at Risk: The Imperative for Educational Reform expressed alarm over what the committee found after viewing the landscape of American elementary and secondary education. The report stated,

> ...the educational foundations of our society are presently being eroded by a rising tide of mediocrity that threatens our very future as a Nation and a people... If an unfriendly foreign power had attempted to impose on America the mediocre educational performance that exists today, we might well have viewed it as an act of war. As it stands, we have allowed this to happen to ourselves.

The commission went on to recommend a series of educational reforms. In the torrent of discussion and controversy following the report, recommendations have centered on the improvement of public education. Since public education is presently the dominant delivery system in the United States, we must indeed be concerned about improving that sector. However, an overemphasis on public education may be missing the point that the more fundamental issue relates to a basic restructuring of the delivery system. In addition to considering avenues of improving public education, the educational future of our nation may rest on widening the scope of the private sector delivery system.

One of the barriers to considering private sector education is the bias in our society in favor of a public education system. This bias rests on many

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social, political and economic foundations. In the economic arena, the most important misunderstanding is the view that public education falls under the category of the economist's concept of a public good. The conventional view of economists holds that public goods must be provided for through the public sector because of inadequacies of the private market system. Therefore, as with national defense, if we are to have a good educational system, so the erroneous analogy goes, the service must be provided for by taxing individuals, public provision of education, and delivery to citizens free of charge.

The purpose of this article is to show that education is not a public good. In contrast to a public good such as national defense, education can be provided through competitive suppliers in the private sector as well as through government enterprise.

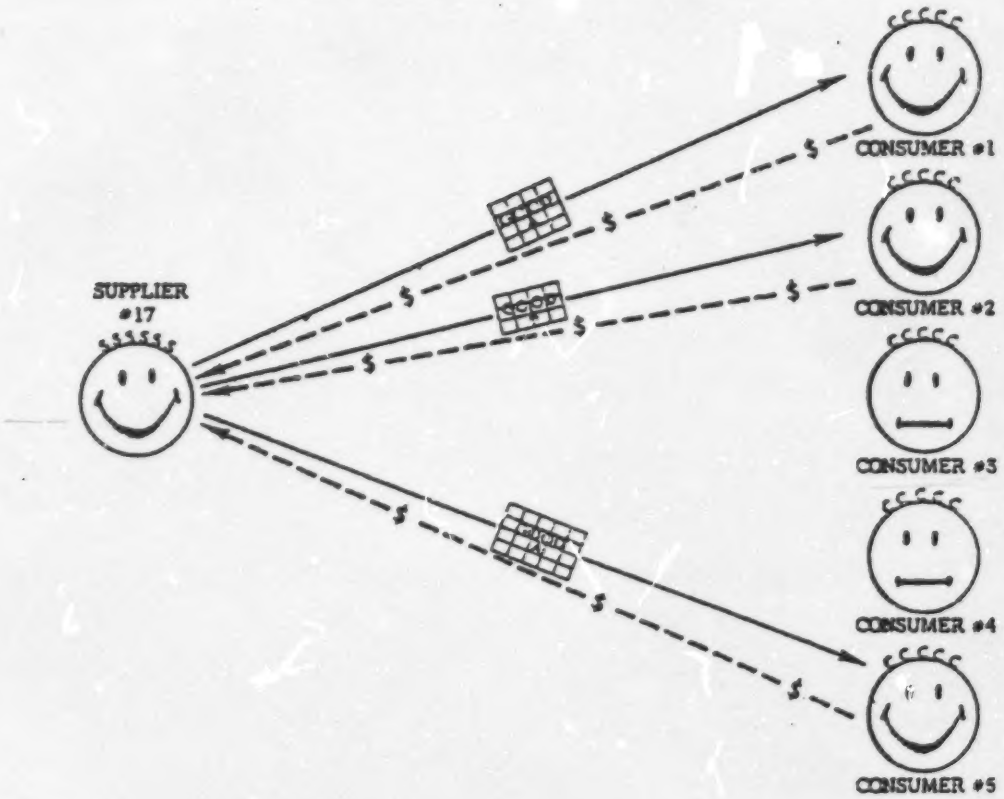
I. PRIVATE GOODS: PRIVATE SECTOR MARKETS CAN HANDLE THESE

The foundation for understanding public goods is the concept of a private good. For a private good, business enterprises produce the good and make it

available to consumers willing to pay for it. Moreover, business firms can deny the good to those consumers who are not willing to pay. Figure 1 uses "Happy

FIGURE 1

THE BENEFIT PATTERN AND FINANCING OF A PRIVATE GOOD



Faces" illustrations to show the nature of supplier-consumer interaction for a private good. Let's use stereo equipment as an example. Supplier 17 is one of many firms selling stereo equipment in this particular market. Supplier 17 interacts with many, but not necessarily all, consumers in the market. First, look at the involvement with Consumers 1, 2, and 5 who purchase stereo equipment from Supplier 17. The supplier provides Good A, stereo equipment, to each

of these consumers. But Supplier 17 requires a payment from each of the consumers. The consumer only receives the stereo equipment if he or she is willing to pay. The economic label for this situation is the exclusion property. **When the exclusion property holds, a supplier can exclude a consumer from the benefits of a product if the consumer is not willing to pay.**

Also note that each of our three purchasers in Figure 1 chooses a somewhat different stereo system, represented by the size of the Good A package. Consumer 5, with the largest package, buys a superb stereo system with separate components. In contrast, Consumer 2, decides to purchase a "bottom of the line" system. The fact that consumers have different tastes and preferences for this private good is not a source of any conflict. Supplier #17 has a strong incentive to cater to the special desires of particular customers.

Now consider Consumers 3 and 4, who do not interact with Supplier 17. There are two possibilities here. First an individual, let's say Consumer 3, does not interact with Supplier 17 because the consumer buys from another supplier of stereo equipment. For Consumer 4, assume another possibility. Consumer 4 is simply not interested in stereo equipment and does not buy the product either from Supplier 17 or any other supplier in the market.

II. PUBLIC GOODS: GOVERNMENT INVOLVEMENT REQUIRED

Now let's look at the properties of a public good. A public good does not differ from a private good in the nature of its production but rather in the nature of consumption. A public good, possesses both of the following

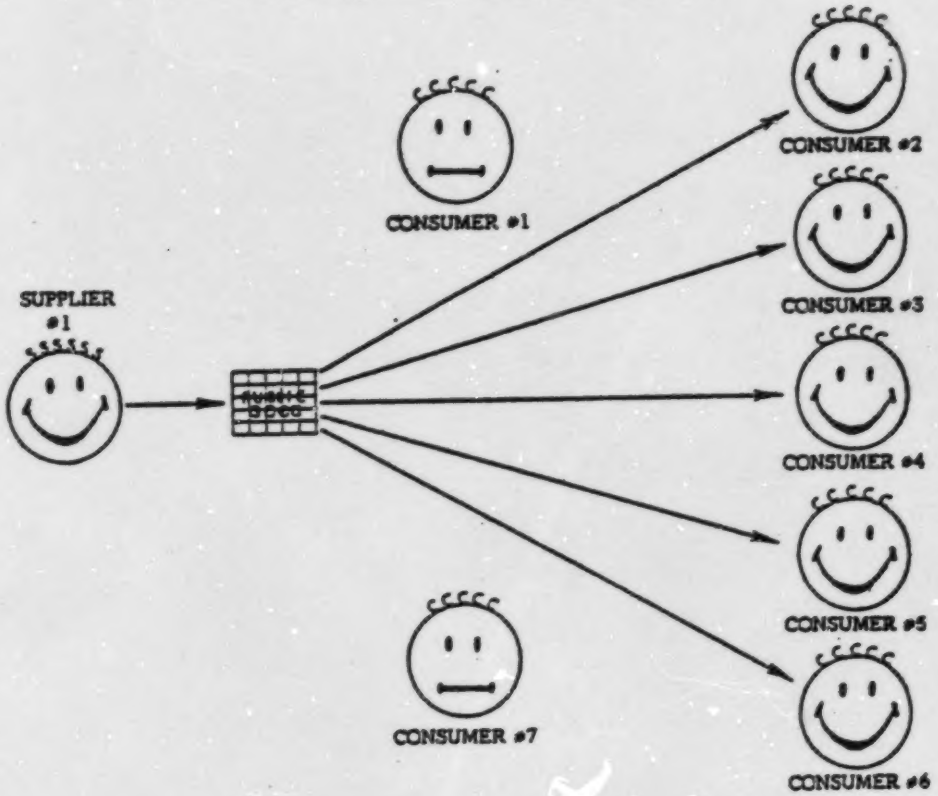
characteristics: (1) **Simultaneous consumption**—the benefits of the good flow simultaneously to many, but not necessarily all, consumers and (2) **Nonexclusion**—a supplier cannot exclude consumers from benefits once the good is provided.

The most prominent example of a public good is national defense. Outlays for national defense provide their benefits simultaneously to the citizens of a nation. Moreover, it is not possible to provide national security only to those who are willing to pay and deny benefits to those who are not willing to pay. This means that the exclusion property of a private good cannot work for national defense. Another example of a public good is a dam providing flood control for a downstream city. The benefits of flood control have the same characteristics of simultaneous consumption and nonexclusion as national defense. The rest of this section will use flood control to illustrate the properties of a public good.

Figure 2 shows the benefit pattern of a public good. Once the good is provided by Supplier 1, the benefits flow simultaneously to several households.

FIGURE 2

THE BENEFIT PATTERN OF A PUBLIC GOOD



Consumers 2 through 6 have happy faces because they receive benefits. However, there are some households who do not receive benefit from the good. Notice Households 1 and 7 have blank faces. A dam providing flood control for a city provides an excellent example of both the properties of simultaneous consumption and nonexclusion. Suppose a dam is built to provide flood protection for

Smithville. Once the dam is built, its benefits are simultaneously received by all the families previously endangered by flooding. While the dam benefits many households, it does not necessarily benefit all. Smithvillians living on high ground do not benefit. Also, people living in communities outside of Smithville do not benefit.

The flood control dam also has the nonexclusion property. Once the dam is built and provides benefits to the family at 1827 East 10th, it is impossible to exclude the family at 1829 East 10th from flood protection. Notice the crucial difference compared to a private good. For stereo equipment, a supplier has no problem providing merchandise for use by the family at 1827 E. 10th and denying stereo equipment to a neighbor who is unwilling to pay. For a public good, a supplier cannot make a good available to those who are willing to pay and deny it to those who are not willing to pay.

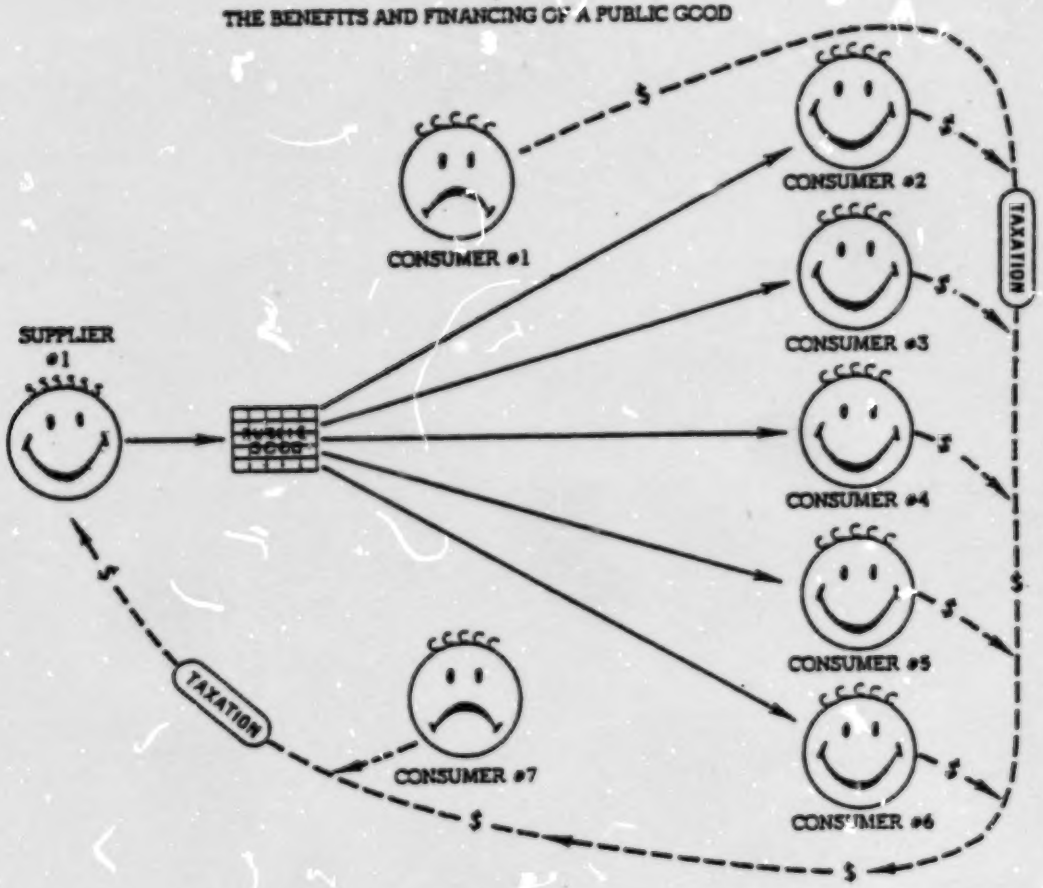
In addition to national defense and flood control there are a few other cases of public goods. Closely related to national defense is the Voice of America, which broadcasts into the Soviet Union. The benefits of this broadcasting possesses the same characteristics of simultaneous consumption and nonexclusion as outlays for weapons systems. Another example is a lighthouse on a bay which gives a warning to navigators. Again we have a clear characteristic of a public good with a group of people simultaneously benefiting from the lighthouse and the impossibility of exclusion by requiring payment for the service.

When the characteristics of simultaneous consumption and nonexclusion prevail, the private markets relying on interaction between buyers and sellers will not supply the product. The public good situation requires governmental involvement. In particular, government must act as an intermediary between

consumers and a producer to finance the public good. Through the political process, the government determines the extent to which a public good is produced and levies taxes to pay for the public good. This involvement is shown in Figure 3. If the public good is to be provided, households are taxed to provide

FIGURE 3

THE BENEFITS AND FINANCING OF A PUBLIC GOOD



the financing of the public good. Note that the beneficiaries of the public good, Consumers 2 through 6, are still smiling after the tax. However, consumers one and seven, who had blank faces, now have sad faces because they are now being taxed even though they receive no benefits.

Once people pay taxes to finance a public good, the government need not take the next step of actually produce the public good. Government can contract with private firms for the production of the particular public good in question. This is often done for flood control projects and even many aspects of national defense. Whether production is carried out by government or a private enterprise, there will typically be only one supplier of the public good.

To complete the comparison between a public good and a private good, recall the two dimensions of consumer choice for a private good: (1) consumers could make different product choices according to particular desires. (2) consumers could choose among many product suppliers. Neither of these characteristics hold for a public good. Consider national defense. Through the political system, a certain collection of activities for national defense will be provided. We cannot have very extensive national defense system for Consumer 1 and a modest defense system for Consumer 5. Likewise, the individual households of Smithville cannot make the separate choices on a flood control project. Neither is choice among suppliers a viable option for a public good. As pointed out above, the supplier may be either a private enterprise or a public enterprise. But in either case there can be no consumer choice among competitive suppliers. If a flood control dam is built for Smithville, one private firm or a government enterprise will provide the dam for Smithville.

III. IS PUBLIC EDUCATION A PUBLIC GOOD?

Now let's return to the question of whether or not education is a public good. If education is a public good, government must finance the good. Moreover, consumer choice among alternative suppliers would not be a realistic

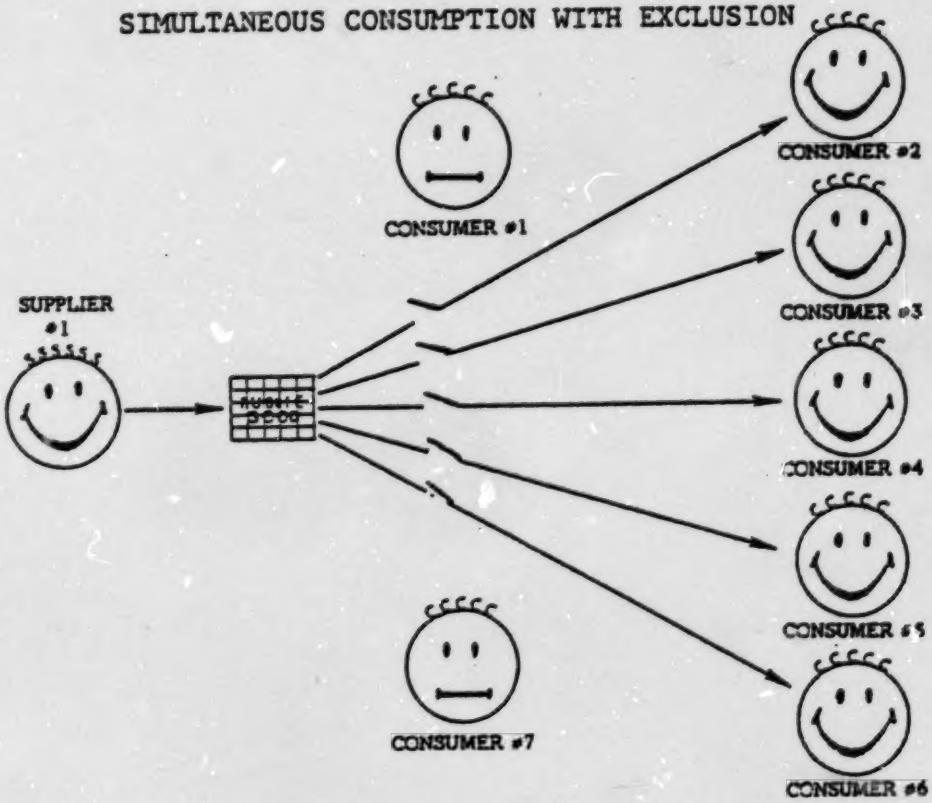
possibility. If, on the other hand, education is not a public good, consumer choice among alternative suppliers is a possibility.

Consider the two characteristics of a public good—simultaneous consumption and nonexclusion. Education definately has an element of simultanious consumption. The benefits of education are simultaneously consumed by students in a particular classroom. But, this condition alone is not sufficient to categorize education as a public good. Many other goods and services, such as entertainment events, possess this characteristic of simultaneous consumption. However, a professional football game or a rock concert is not a public good because a supplier can exclude people from the benefits if they are not willing

to pay. The situation for goods and services such as education and concerts is presented in Figure 4. Once the good is provided, we see that benefits flow

Figure 4

SIMULTANEOUS CONSUMPTION WITH EXCLUSION



simultaneously to many individuals. However, the opening in the line going to each individual consumer has a gate that can be opened or closed. The producer can allow the benefits to flow to a consumer by admitting these who are willing to pay and excluding those who do not pay.

Since education is not a public good, the two characteristics of consumer choice, associated with any private good are open to us. First, the characteristics of education do not provide a barrier to having different families making different educational choices in the marketplace. In contrast to national defense, different families can make their separate choices for the education they wish to have for their children. Indeed a family may choose a different type of education for different children. Second, we can have an education system that offers households many alternative suppliers in a competitive market. Today with the limited extent of private sector education, some choice for some people is already available in the market. There is no reason relating to the economic characteristics of education that this choice cannot be expanded in the future.

IV. POLICY CONCLUSIONS

If our nation wishes, we can continue to rely on taxation and government enterprise for elementary and secondary education. However, that decision is by no means dictated by the economic characteristics of education. In contrast to public goods, such as flood control and national defense, the opportunity to place much greater reliance on the private sector market process is clearly available to us.

Once we recognize that an expanded private sector is a viable approach for education, then we can think about restructuring our educational system to increase our reliance on competitive enterprise rather than simply considering options for improving government enterprise in education. We must not be captured in our thinking by the erroneous view that we must fight our way out of our current educational problems relaying on public sector education alone.

Unfortunately this is usually the case. For example, consider the following recomendations of the National Commission in Excellence in Education:

A. State and local high school graduation requirement should be strengthened.
B. Colleges and universities must develop more rigorous admissions standards.
C. More time during the school day should be devoted toward basic education.
D. Teacher proportion should be strengthened and improved.
E. Citizens across the nation must hold educators and elected officials responsible for providing leadership for achieving these reforms.

Not one element of the commission's recommendation dealt with the private sector of education. If there was any doubt about whether the commission had blinders which kept them away from private sector alternatives, this doubt is erased by recommendation E, which exorts citizens must hold educational leaders and elected officials responsible. Clearly this implies that we must continue to rely on government enterprise in education. For the private sector, we rely on individual choice interacting with private sector suppliers as the mechanism to hold the producers responsible.

It is curious that so many of our national leaders who support competitive private enterprise throughout most of our economy do not appreciate its potential contribution of private enterprise in education. To the extent that we maintain today's reliance on government enterprise in education, our children and our nation will be the losers.